

# Corporate Strategy and Risk-Taking Level—Based on the Regulatory Role of Audit Quality

Qiao Cheng

Shanghai Maritime University, Shanghai, China

Email: qiaocheng\_hb@163.com

**How to cite this paper:** Cheng, Q. (2021). Corporate Strategy and Risk-Taking Level—Based on the Regulatory Role of Audit Quality. *Open Journal of Business and Management*, 9, 1631-1646.

<https://doi.org/10.4236/ojbm.2021.94089>

**Received:** June 11, 2021

**Accepted:** July 9, 2021

**Published:** July 12, 2021

Copyright © 2021 by author(s) and Scientific Research Publishing Inc.

This work is licensed under the Creative Commons Attribution International License (CC BY 4.0).

<http://creativecommons.org/licenses/by/4.0/>



Open Access

---

## Abstract

This paper uses the data of Shanghai and Shenzhen A-share listed companies in China from 2010 to 2019 as a research sample to examine the impact of corporate strategy on the level of corporate risk-taking and the moderating effect of audit quality on the relationship between the two. We demonstrate that the company's strategic choice is positively correlated with the level of corporate risk-taking, that is, the more aggressive the company's strategy is, the higher the level of corporate risk-taking will be; Compared with non-“Big10” audits, “Big10” audits can more effectively restrain the impact of company strategic choices on the level of corporate risk-taking. From the perspective of corporate strategy, this article expands the influencing factors of the level of corporate risk-taking and supports the importance of audit supervision in restraining risk-taking, which can provide a certain reference for the formulation of corporate strategy and external supervision and management.

## Keywords

Corporate Strategy, Strategic Choice, Risk-Taking Level, Audit Quality

---

## 1. Introduction

In recent years, China's economic growth has turned to medium-high speed and economic structure has been continuously optimized and upgraded. It can be seen that economic development has entered a “new normal”. The environmental uncertainty faced by enterprises has also continued to increase, and the industry competition is particularly fierce. For the best, strategic choice is crucial to its development. According to the resource dependence theory, enterprises depend on the external environment, and changes in the external environment

will have a significant impact on the management decisions of the enterprise. Therefore, companies need to formulate the most suitable corporate strategy according to the market environment and micro-conditions they are in. This results in strategic differences between different companies (Liu & Li, 2019). Bentley et al. (2013) divides strategic choices into radical and conservative types. Nowadays, many companies choose radical strategies in order to discover new profit growth points and competitive advantages. The risk-level impact that radical strategies bring to the company is also worthy of attention. In order to implement the strategy smoothly, the management of the company will make various decisions around the company's strategy. Since the level of risk-taking is one of the important decisions in the company's investment decision-making, the strategy will have an important impact on the risk-taking. Therefore, this article intends to study the enterprise's risk-taking level from a strategic perspective.

The level of enterprise risk-taking is the degree of tolerance of the risks faced by an enterprise in order to obtain high returns in the course of operation, and it plays an important role in the investment decision-making of the enterprise. A certain level of risk-taking can promote the development of enterprises (Hilary & Hui, 2008) and the economic growth of society (John et al., 2008). But the level of risk-taking is not as high as possible. Maintaining a balance of risks is more conducive to the development of the enterprise (Dong, 2014). General Secretary Xi Jinping emphasized the importance of risk prevention and control in the new era, which also puts forward new requirements and challenges for external auditing. As a powerful external supervision agency, accounting firms can go deep into the company to obtain some internal information and materials to restrict the opportunistic behavior of the company management effectively and provide investors with reliable information about the company's disclosure (Li, 2009). The higher the audit quality is, the more accurately the company's risks and vulnerabilities can be identified. Can high-quality audit supervision have an impact on the relationship between strategic choices and risk-taking levels? This article takes Shanghai and Shenzhen A-share listed companies in China as the research object, and studies the influence of corporate strategy on the level of corporate risk-taking and the regulatory role of audit supervision.

The contributions of this article are mainly in the following aspects: First, the previous literature analysis of risk-taking levels has more influence factors from the macro level, management level, etc., while few documents start from the strategic level. This article will research the issues by combining strategic theory with accounting theory. From the perspective of strategic choice, this paper analyzes the impact of the aggressiveness of the strategy on the level of risk-taking, which not only provides a useful supplement to the research of the company by strategic choice, but also provides a new perspective and direction for the influencing factors of the company's risk-taking level. Secondly, this article analyzes the adjustment effect of audit quality on the relationship between the

two, and incorporates corporate strategy-audit quality-risk-taking level into a research framework. At present, there is currently no literature that pays attention to this.

## 2. Literature Review

### 2.1. Review of Corporate Strategy Literature

There are many different classification methods for strategy. Miles et al. (1978) divide strategy into offensive, defensive, and analytical strategies. This classification has been recognized by the academic world, and it has also been widely used in practice. Since then, Tang et al. (2011) and Bentley et al. (2013) based on the classification of Miles and Snow, quantified the company's strategy from the degree of difference and the degree of aggressiveness, aroused extensive research on strategy by scholars. According to the degree of difference, strategies can be divided into high-diversity strategies and low-diversity strategies (Wang et al., 2018); According to the degree of aggressiveness, corporate strategy can be divided into radical strategy and conservative strategy. Domestic scholars' research on strategy is more from the economic consequences it causes, mainly focusing on corporate performance, accounting information quality, earnings management, cost of equity capital, cost of debt capital, stock price collapse risk, etc. Wang et al. (2018) found companies that adopt offensive strategies have higher market value and stronger profitability than companies that adopt defensive strategies, and the level of corporate governance can significantly regulate the relationship between company strategy and business performance. Ye et al. (2015) studied the impact of strategic differences on corporate earnings management, and found that corporate strategic differences are positively correlated with accounting accrual earnings management, and negatively correlated with actual activity earnings management. Similarly, Sun, Wang et al. (2016), Xia & Ming (2021) also concluded that the more aggressive the strategy is, the higher the degree of earnings management will be, and explained the intermediary role of financing demand in it. From the perspective of the value relevance of accounting information, Ye et al. (2014) believe that the higher the degree of corporate strategy difference, the higher the value relevance of owner's equity is, the lower the value relevance of net profit will be, which encourage increased disclosure of strategic information to help investors better understand financial statements. Wang et al. (2017) found that companies with high strategic differences have higher corresponding equity capital costs, and business risks and information asymmetry have played an intermediary role. In terms of financing, Li & Shi (2016) believe that the greater the strategic difference is, the higher the interest rate of bank loans will be; the shorter the term is, the smaller the amount will be. Sun, Wang et al. (2016) also found that the more aggressive the company's strategy is, the higher the risk of stock price collapse will be, and this significant impact is more obvious in private companies.

## 2.2. Review of Risk-Taking Literature

The academic circles have relatively mature research on the level of risk-taking, mainly from the factors that affect the level of risk-taking and the economic consequences of risk-taking. Judging from the existing research, the external environment, macro policies, corporate governance level, and manager level all affect the level of risk-taking from different aspects. Zhang (2016) studied the impact of tightening monetary policy on the level of risk-taking, and found that monetary tightening can effectively curb the level of risk-taking of enterprises. Yu et al. (2013a) used a DID model and found that the level of risk-taking of state-owned enterprises after privatization significantly improved. Guo et al. (2017) based on the agency problem between creditors and shareholders, found that the more bank loans are, the higher the level of corporate risk-taking will be. Zhang & Zhang (2012) believe that the greater the CEO's management autonomy is, the greater the level of risk-taking of an enterprise will be and the better its performance will be. Lv et al. (2015) found that the heterogeneity of managers can influence the level of corporate risk-taking, such as more investment by managers, higher financial leverage, and diversified business operations, which will all have a positive impact on the level of risk-taking, and the older the manager's team is, the lower the level of risk-taking will be. The economic consequences of risk-taking levels are mainly research on corporate performance, capital allocation efficiency, etc. Yu et al. (2013b) researched that an increase in the level of risk-taking can improve the efficiency of corporate capital allocation and further increase corporate value. He et al. (2019) found that the richer the CEO's professional experience, the higher the enterprise's risk-taking level is, and the greater the value of the company will be.

Judging from the existing literature, less literature pays attention to the impact of corporate strategic choices on the level of risk-taking. Therefore, this article caters to the current interdisciplinary research trend and introduces the corporate strategy theory in management to the field of accounting for combined research. In addition, many documents have confirmed the governance role of audit supervision, but the combination of audit supervision and the impact of corporate strategy on the level of risk-taking has received little attention.

## 3. Materials and Methods

### 3.1. Theoretical Analysis and Research Hypothesis

First of all, when companies choose different projects, they need to consider future benefits and corresponding risks. If they want to obtain high returns, they must invest in some relatively risky projects. Increasing environmental uncertainty prompts companies to take certain measures in order to obtain greater competitive advantages, such as increasing R & D investment and accelerating the pace of corporate innovation. Therefore, strategically aggressive companies are more inclined to invest in some high-yield projects. In the asset pricing

model, risks and returns are directly proportional. High returns mean high risks. Therefore, strategically aggressive companies face greater uncertainty and face more risks such as operational risks, financial risks, investment and financing risks. Therefore, the company must bear the risk of possible failure, which invisibly increases the level of risk-taking (Rajagopalan, 1997). Compared with some conservative strategic enterprises that are relatively stable from beginning to end, they are unwilling to invest in projects with excessive risks. It is their goal to consolidate the existing market and customers and ensure the stable development of the company. Therefore, the level of risk-taking is also low. Secondly, according to the principal-agent theory and the information asymmetry theory, there is a certain conflict of interest between shareholders and managers. Especially when the management is in a superior position to grasp more information, the management chooses a radical strategy and invests in high-risk and high-yield projects out of self-interest. This has led the company to assume an excessively high level of risk that is inconsistent with shareholder expectations. In addition, management and investors who choose aggressive strategies are generally overconfident and optimistic about the future development of the company (Habib & Hasan, 2017) and overconfident managers usually tend to overestimate returns and underestimate risks (Liang, 2015), which in turn leads to an increase in the company's risk-taking level.

Based on the above analysis, the first hypothesis of this article is proposed:

H1: The company's strategic choice is positively related to the level of corporate risk-taking, that is, the more radical the strategic choice is, the higher the level of corporate risk-taking will be.

According to the information hypothesis and signal transmission theory of audit requirements, auditing can help improve the quality of financial information, and can also effectively allocate resources by transmitting signals, so there is a need for auditing. Auditing can essentially improve the credibility of information and make financial information more valuable (Wang & Zhang, 2014). On the one hand, aggressive strategies can also lead to serious information asymmetry between investors and managers. Willenborg (1999) pointed out that high-quality audits can provide investors with more "insurable" information. The more radical the company's strategy is, the greater the risk that the company faces will be. The management may adopt certain earnings management behaviors out of opportunistic considerations, or even financial fraud, which requires internal and external supervision of various risks that may occur. High-quality audit supervision can restrain management's opportunistic behavior, control risks, and improve corporate value (Wang & Zhang, 2014); and the higher the audit quality is, the more authentic and reliable accounting information can be ensured, which will improve the quality of corporate information and increase the external credibility of corporate accounting information (Bushman & Smith, 2001) while reducing information risks, thereby inhibiting the impact of strategic choices on the level of risk-taking. On the other hand, high-quality audit su-

pervision can also make up for the lack of internal corporate governance and improve the level of internal control. Under high-quality audit supervision, companies with aggressive strategies can significantly improve their internal control deficiencies and improve their internal control levels. It can also effectively control the management's opportunistic behavior and reduce its risk-taking level.

Based on the above analysis, the second hypothesis of this article is proposed:

H2: Audit quality can inhibit the relationship between the company's strategic choices and the level of risk-taking, which means that high-quality audit supervision can significantly inhibit the impact of strategic choices on the level of corporate risk-taking.

### **3.2. The Sample**

This article selects all Shanghai and Shenzhen A-share listed companies in China from 2010 to 2019 as the research object, and this article removes the sample of listed companies in the financial industry as well as the sample of ST and \*ST listed companies. Samples with variables involved in corporate strategy for less than 5 years are excluded. So are samples of companies with missing values in related variables. In the end, 8420 sample observations were obtained. In order to eliminate the influence of extreme values, this article performs Winsorize processing on all continuous variables at 1% and 99% levels. The data used in this article all come from the CSMAR database. CSMAR is the first and largest professional high-tech company engaged in the design and development of accurate databases of financial and economic information in China. The data processing of this article is completed in STATA16.

### **3.3. The Variables Selected for the Study**

#### **3.3.1. The Explanatory Variable: The Choice of Company Strategy**

This paper draws on Bentley et al. (2013) and Sun et al. (2016) to construct a discrete variable to measure the company's strategic choices, which is recorded as Strategy. A company's strategic aggressiveness generally refers to the following six characteristics: 1) Ratio of R & D expenditure to sales revenue; 2) Ratio of number of employees to sales revenue; 3) Sales revenue growth rate; 4) The proportion of the sum of sales expenses and management expenses to sales revenue; 5) The volatility of the number of employees; 6) The ratio of fixed assets to total assets. Refer to the existing literature and take the average of the above six variables over the past five years. For the above (1) - (5) variables, we divide each variable into five groups according to the average value of each variable in the past five years from small to large in each "year-industry" sub-sample. The smallest group is assigned a score of 0, and the second smallest group is assigned a score of 1, and so on, and the largest group is assigned 4 points. For the 6th variable, the assignment method is opposite, that is, the smallest group is assigned 4 points, and the largest group is assigned 0 points. Finally, the grouping scores

of the six variables are added together to obtain a score of 0 - 24 points to measure the variable Strategy. The larger the Strategy value is, the more aggressive the company's strategy will be; and the smaller the Strategy value is, the more conservative the company's strategy will be.

### 3.3.2. The Dependent Variable: The Level of Risk-Taking

This paper draws on the research of Yu et al. (2013a) who use the volatility of corporate earnings to measure the level of risk-taking, that is,  $\delta$  ( $ROA_i$ ), where  $ROA_i$  is the ratio of the company's corresponding year's profit before tax, interest, depreciation and amortization to the total assets at the end of the year. When calculating volatility, we first adjust the company's ROA for each year by using the industry average, and then calculate the company's industry-adjusted ROA standard deviation in each observation period. Since the company's strategic choice is calculated based on the average value of each variable in the past five years, in order to maintain the consistency of the data, this article uses an observation period of every five years to calculate the enterprise's risk-taking level. The second period is 2007-2011, and the third period is 2008-2012, and so on, so the sample selection time is 2010-2019, and the actual observation year is 2006-2019. The specific calculation formula is as follows,

$$\text{Risk1}_i = \sqrt{\frac{1}{N-1} \sum_{n=1}^N \left( \text{ADJ\_ROA}_{in} - \frac{1}{N} \sum_{n=1}^N \text{ADJ\_ROA}_{in} \right)^2},$$

$$\text{where } N=5, \text{ ADJ\_ROA}_{in} = \frac{\text{EBITDA}_{in}}{\text{ASSETS}_{in}} - \frac{1}{X_n} \sum_{k=1}^X \frac{\text{EBITDA}_{kn}}{\text{ASSETS}_{kn}}.$$

In addition, in the robustness test, the difference between the largest ROA and the smallest ROA of the company during the observation period is also used to measure the volatility of earnings, namely  $\text{Risk2}_i = \text{Max (ROA)} - \text{Min (ROA)}$ .

### 3.3.3. The Moderating Variable: Audit Quality

The measurement of audit quality mostly uses alternative variables. Deangelo (1981) believes that BigN can be used to replace audit quality. Zhang & Wen (2016) conducted research and screening on alternative indicators of audit quality, and tested the earnings quality (manipulability accrued profit, earnings robustness, earnings response coefficient), audit fees, and firm size (whether "Big4" or "Big10") whether have an alternative effect on audit quality. It turns out that the domestic "Big10" accounting firm and manipulability accrued profits are the best alternatives. The international "Big4" and audit fees can be replaced to a certain extent, but the effectiveness is doubtful. Earnings robustness and earnings response coefficient cannot be used as substitute variables for audit quality. Therefore, this article draws on the research results of Zhang & Wen (2016), and divides the sample companies into two groups according to whether they were audited by the Big10 accounting firms that year—a high audit quality group and a low audit quality group.

### 3.3.4. Control Variables

This article refers to the previous literature to select company size (Size), financial leverage (Lev), profitability (Roa), book-to-market value ratio (Bm), property rights (Soe), company listing years (ListAge), and institutional investor shareholding ratio (Inst) as a controlled variable, in addition, the industry and the year are controlled. The main variables and definitions are shown in **Table 1**.

### 3.4. Model Building

In order to verify the above assumptions H1 and H2, this paper intends to use the least squares method (OLS), and build the following models:

$$\text{Model 1: } \text{Risk}_{i,t} = \alpha_0 + \alpha_1 \text{Strategy}_{i,t} + \alpha_2 \text{Size}_{i,t} + \alpha_3 \text{Lev}_{i,t} + \alpha_4 \text{Roa}_{i,t} + \alpha_5 \text{Bm}_{i,t} + \alpha_6 \text{Soe}_{i,t} + \alpha_7 \text{ListAge}_{i,t} + \alpha_8 \text{Inst}_{i,t} + \Sigma \text{Year} + \Sigma \text{Industry} + \varepsilon_{i,t}$$

$$\text{Model 2: } \text{Risk}_{i,t} = \alpha_0 + \alpha_1 \text{Strategy}_{i,t} + \alpha_2 \text{Big10}_{i,t} + \alpha_3 \text{Strategy}_{i,t} * \text{Big10}_{i,t} + \alpha_4 \text{Size}_{i,t} + \alpha_5 \text{Lev}_{i,t} + \alpha_6 \text{Roa}_{i,t} + \alpha_7 \text{Bm}_{i,t} + \alpha_8 \text{Soe}_{i,t} + \alpha_9 \text{ListAge}_{i,t} + \alpha_{10} \text{Inst}_{i,t} + \Sigma \text{Year} + \Sigma \text{Industry} + \varepsilon_{i,t}$$

**Table 1.** Main variables and definitions.

Variable type	Variable name	Variable definitions
The dependent variable	Risk1	With reference to the method of <a href="#">Yu et al. (2013a)</a> to calculate the level of risk exposure, see above for details.
	Risk2	The difference between the maximum and minimum values of the company's ROA during the observation period.
The Explanatory variable	Strategy	The company's strategic variables was calculated with reference to the methods of <a href="#">Bentley et al. (2013)</a> and <a href="#">Sun et al. (2016)</a> , see above for details.
The moderating variable	Big10	Whether the listed company hired the top ten domestic accounting firms to conduct audits in the current year or not, take 1; otherwise, take 0.
Control variables	Size	The natural logarithm of the total asset value at the end of the period.
	Lev	Total liabilities at the end of the period/Total assets at the end of the period
	Roa	Net profit/average balance of total assets
	Bm	Book market value/total market value
	Soe	State-owned holding company takes 1, otherwise 0.
	ListAge	In (the year of the current year – the year of listing + 1)
	Inst	The total number of shares held by institutional investors divided by the outstanding share capital.
	Year	control
	Industry	control



## 4. Empirical Results

### 4.1. Descriptive Analysis

**Table 2** lists the descriptive statistical results of the main variables in this article. It can be seen from **Table 2** that the maximum and minimum values of Risk1, which represent the company's risk tolerance level, are 0.318 and 0.0012, and the maximum and minimum values of Risk2 are 0.835 and 0.003. Both measurement methods indicate the risk tolerance level of listed companies in my country. There are big differences between the maximum and minimum values of Strategy, which represent the company's strategic aggressiveness, are 24 and 0, indicating that the strategic aggressiveness of listed companies in my country is also quite different. Some are too conservative and some are too aggressive.

### 4.2. Correlation Analysis of Variables

**Table 3** lists the correlation coefficients of the main variables in this paper and

**Table 2.** Descriptive analysis.

Variable	Obs	Mean	Std. Dev.	Min	Max
Risk1	8420	0.0286	0.0254	0.0012	0.318
Risk2	8420	0.0703	0.0625	0.003	0.835
Strategy	8420	11.30	4.047	0	24
Size	8420	22.67	1.291	18.83	27.47
Lev	8420	0.500	0.193	0.0268	1.056
Roa	8420	0.0403	0.0527	-0.486	0.252
Bm	8420	1.384	1.400	0.0481	12.53
Soe	8420	0.634	0.482	0	1
ListAge	8420	2.810	0.288	1.792	3.332
Inst	8420	0.477	0.193	0	0.892

**Table 3.** Correlation coefficient matrix.

	Risk1	Risk2	Strategy	Size	Lev	Roa	Bm	Soe	ListAge	Inst
Risk1	1									
Risk2	0.994***	1								
Strategy	0.023*	0.025**	1							
Size	-0.196***	-0.199***	0	1						
Lev	-0.146***	-0.145***	-0.095***	0.459***	1					
Roa	0.002	0.003	0.217***	0.002	-0.385***	1				
Bm	-0.177***	-0.176***	-0.133***	0.603***	0.559***	-0.271***	1			
Soe	-0.113***	-0.112***	-0.154***	0.091***	0.099***	-0.130***	0.119***	1		
ListAge	-0.022*	-0.023*	-0.146***	0.175***	0.023*	-0.124***	0.145***	0.132***	1	
Inst	-0.105***	-0.108***	0.012	0.332***	0.033***	0.221***	0.099***	0.180***	0.056***	1

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

their significance. It can be seen from **Table 3** that the Pearson correlation coefficient between the two variables Risk1 and Risk2 that measure the level of risk taking is 0.994, which is significant at the 1% level, indicating that there is good consistency between the two methods. The correlation coefficients of the company's strategic choice variables Strategy and Risk1 and Risk2 are 0.023 and 0.025, respectively. The coefficients are close in size and significant at the levels of 10% and 5% respectively. The results of the correlation coefficient test indicate that the company's strategic choice is positively correlated with the level of risk, which is in line with the expectations of hypothesis 1.

### 4.3. Multiple Regression Analysis

#### 4.3.1. Corporate Strategy and Risk-Taking Level

**Table 4** lists the regression results of Hypothesis 1. Column (1) reports the regression results without control variables, and column (2) reports the regression

**Table 4.** Regression results of company strategy and risk-bearing level.

	(1)	(2)
	Risk1	Risk1
Strategy	0.00025*** (3.25)	0.00043*** (5.68)
Size		-0.00198*** (-6.32)
Lev		-0.00788*** (-4.14)
Roa		-0.06201*** (-10.51)
Bm		-0.00252*** (-8.77)
Soe		-0.00545*** (-9.27)
ListAge		0.00946*** (7.63)
Inst		-0.00420*** (-2.78)
Time control	YES	YES
Industry Control	YES	YES
_cons	0.03728*** (10.55)	0.06796*** (9.11)
N	8420	8420
r2	0.10320	0.17221
F	11.99521	19.92310

*t* statistics in parentheses. \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

results including control variables. The  $r^2$  after including the control variables is greatly increased, and regardless of whether it contains control variables, the regression coefficients of risk-taking level-Risk1 and the company's strategic choice strategy are significantly positively correlated at the level of 1%. The coefficients are 0.00025 and 0.00043 respectively. The results indicate that the company's strategic choice has a positive impact on the level of risk-taking, that is, the more radical the company's strategy is, the higher the level of corporate risk-taking will be, which supports H1. Compared with conservative companies, radical companies are more willing to choose high-risk and high-yield projects.

The regression results of the control variables are basically in line with expectations: the regression coefficient ( $-0.00198$ ) of company size (Size) is significantly negative at the 1% level, indicating that the larger the company is, the lower the level of corporate risk-taking will be; the regression coefficient (0.00946) of the company's listing age (ListAge) is significantly positive at the 1% level, explaining that the longer the company goes public, the higher the level of risk will be; the regression coefficient ( $-0.06201$ ) of corporate profitability (Roa) is significantly negative at the 1% level, indicating that companies with poorer profitability have stronger risk appetite and willingness; the regression coefficient ( $-0.00545$ ) of the nature of property rights (Soe) is also significant is also significantly negative, which shows that state-owned enterprises prefer a more stable corporate strategy and have a lower level of risk-taking.

#### 4.3.2. Audit Quality, Company Strategy and Risk-Taking Level

**Table 5** lists the regression results of Hypothesis 2. Column (1) reports the main regression results audited by domestic "Big10" firms, while Column (2) reports the main regression results audited by non-"Big10" firms, and column (3) adds interactive items on the basis of the full sample. From the grouping results, in the high-quality group audited by the "Big10", the coefficient (0.00011) of strategic choice is not significant, while in the low-quality group audited by the non-"Big10", the coefficient of strategic choice is 0.00074, which is still significant at the 1% level. The interaction term "Strategy Big10" in column (3) is significantly negative at the 5% level, with a coefficient of  $-0.00031$ . The above results show that high audit quality can effectively restrain the relationship between the company's strategic choices and the level of risk-taking. Compared with non-"Big10" audits, the "Big10" audits can more effectively restrain the impact of the company's strategic choices on the level of corporate risk-taking. Thus H2 is supported.

#### 4.4. Robustness Test

##### 4.4.1. Replace the Measurement Method of the Explained Variable

We replace the risk-taking level Risk1 with Risk2 into the model1 and model2 for regression. The regression results are listed in column (1) (2) in **Table 6** below. The regression results are consistent with the above.

**Table 5.** Regression results of company strategy, audit quality and risk-taking level.

	(1)	(2)	(3)
	Big10	Non-Big10	Full sample
	Risk1	Risk1	Risk1
Strategy	0.00011 (1.00)	0.00074*** (6.71)	0.00059*** (5.82)
Big10			0.00438*** (2.85)
StrategyBig10			-0.00031** (-2.44)
Size	-0.00179*** (-4.42)	-0.00243*** (-4.78)	-0.00200*** (-6.36)
Lev	-0.00806*** (-3.04)	-0.00879*** (-3.20)	-0.00782*** (-4.11)
Roa	-0.02799*** (-3.44)	-0.09649*** (-11.25)	-0.06235*** (-10.57)
Bm	-0.00208*** (-5.67)	-0.00285*** (-6.21)	-0.00253*** (-8.80)
Soe	-0.00693*** (-8.32)	-0.00415*** (-4.90)	-0.00553*** (-9.39)
ListAge	0.00536*** (3.19)	0.01363*** (7.26)	0.00936*** (7.55)
Inst	-0.00498** (-2.43)	-0.00213 (-0.94)	-0.00428*** (-2.83)
Time control	YES	YES	YES
Industry Control	YES	YES	YES
_cons	0.07640*** (7.56)	0.06757*** (5.92)	0.06668*** (8.88)
N	4508	3912	8420
r2	0.18933	0.20943	0.17306
F	12.92369	12.06910	19.58720

*t* statistics in parentheses. \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

**Table 6.** Robustness test regression results.

	(1)	(2)	(3)	(4)
	Risk2	Risk2	Risk1	Risk2
Strategy	0.00065*** (3.46)	0.00111*** (5.98)		

## Continued

			0.00026***	0.00067***
L. Strategy			(3.39)	(3.54)
Size		-0.00501***	-0.00184***	-0.00465***
		(-6.53)	(-5.75)	(-5.92)
Lev		-0.01942***	-0.00913***	-0.02264***
		(-4.16)	(-4.67)	(-4.73)
Roa		-0.15281***	-0.07310***	-0.18052***
		(-10.57)	(-12.26)	(-12.36)
Bm		-0.00599***	-0.00247***	-0.00588***
		(-8.51)	(-8.66)	(-8.43)
Soe		-0.01329***	-0.00576***	-0.01395***
		(-9.21)	(-9.58)	(-9.46)
ListAge		0.02396***	0.00959***	0.02442***
		(7.88)	(7.25)	(7.53)
Inst		-0.01103***	-0.00225	-0.00645*
		(-2.98)	(-1.42)	(-1.66)
Time control	YES	YES	YES	YES
Industry Control	YES	YES	YES	YES
_cons	0.09135***	0.16840***	0.06778***	0.16709***
	(10.54)	(9.21)	(8.78)	(8.83)
N	8420	8420	7578	7578
r2	0.10491	0.17439	0.18134	0.18331
F	12.21663	20.22886	19.29443	19.55091

*t* statistics in parentheses. \* $p < 0.1$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

#### 4.4.2. One-Period Lagging Explanatory Variable

In view of the fact that the company's strategic choice in the previous period will have an impact on the level of risk-taking in this period, but the level of risk-taking in this period will not affect the company's strategic choice in the previous period, so this article uses the company's strategic choice in the lagging period as an independent variable. Regress the dependent variables Risk1 and Risk2 respectively to control the impact of risk-taking level on strategic choices. The regression results are listed in column (3) (4) in **Table 6** below. The regression results are still consistent with the above.

## 5. Conclusion and Recommendations

Based on the empirical analysis above, the main conclusions are: 1) The company's strategic choice has a positive impact on the level of corporate risk-taking, that is, the more radical the company's strategic choice is, the higher the level of

corporate risk-taking will be; 2) High-quality audit supervision can effectively restrain the company's strategic choice from affecting the company. Compared with non-"Big10" audits, "Big10" audits can more effectively restrain the impact of the company's strategic choices on the level of corporate risk exposure.

In response to the above conclusions, this article puts forward the following recommendations: 1) Formulate appropriate strategies and try to improve corporate governance. Strategy determines the development direction of an enterprise and is essential to the development of an enterprise. Therefore, when making strategic decisions, a company should consider the company as a whole, comprehensively consider its own risk control capabilities and crisis response capabilities, and choose a strategy that suits itself. When the corporate strategy is more radical, it should improve the internal control system, improve the level of internal control and corporate governance as much as possible, so as to reduce the adverse effects of information asymmetry and agency conflicts and maintain a certain degree of financial flexibility to cope with the sudden financial crisis brought about by the radical strategy. 2) Recognize risks objectively and clarify the "red line" of risk tolerance. Companies should dynamically monitor the actual level of risk-bearing, clarify their risk-taking range, implement relatively aggressive strategies within the tolerable risk range. Managers should also strengthen their awareness of risks at the personal level. They should not be blindly confident, but should objectively assess the risks and benefits of the project before making decisions. 3) Improve audit quality and give full play to the role of audit supervision. As an independent third-party agency, accounting firms can play a certain role in overseeing enterprises. Therefore, we must further improve and perfect the supervision effect of market audits, and continuously improve audit quality. When internal governance is effective, it is further subject to certain external constraints to restrain enterprises risk-taking behavior, thereby controlling the risk-taking level in a reasonable range.

This study still has certain shortcomings: For example, the measurement of company strategy in this article is only from the perspective of aggressiveness. In addition, there are many different strategic classifications. The impact of different classifications on the level of risk-taking is worthy of in-depth exploration. Secondly, in addition to audit quality, there are still other adjustment effects that need to be tested, which are left for in-depth study in the follow-up.

### **Conflicts of Interest**

The author declares no conflicts of interest regarding the publication of this paper.

### **References**

- Bentley, K. A., Omer, T. C., & Sharp, N. Y. (2013). Business Strategy, Financial Reporting Irregularities, and Audit Effort. *Contemporary Accounting Research*, 30, 642-665. <https://doi.org/10.1111/j.1911-3846.2012.01174.x>

- Bushman, R. M., & Smith, A. J. (2001). Financial Accounting Information and Corporate Governance. *Journal of Accounting and Economics*, 32, 228-254.  
[https://doi.org/10.1016/S0165-4101\(01\)00027-1](https://doi.org/10.1016/S0165-4101(01)00027-1)
- DeAngelo, L. E. (1981). Auditor Size and Auditor Quality. *Journal of Accounting and Economics*, 3, 183-199. [https://doi.org/10.1016/0165-4101\(81\)90002-1](https://doi.org/10.1016/0165-4101(81)90002-1)
- Dong, B. B. (2014). Do Risks Need to Be Balanced: The Inverted U-Shaped Relationship between Risk-Taking and Performance of New Enterprises and the Mediating Role of Entrepreneurial Ability. *Management World*, No. 1, 120-131.
- Guo, J., Liu, Z. Y., & Peng, T. (2017). The Impact of Bank Loans on Corporate Risk-Taking: Promote or Inhibit? *Accounting Research*, No. 2, 42-48 + 96.
- Habib, A., & Hasan, M. M. (2017). Business Strategy, Overvalued Equities, and Stock Price Crash Risk. *Research in International Business and Finance*, 39, 145-176.  
<https://doi.org/10.1016/j.ribaf.2016.09.011>
- He, Y., Yu, W. L., & Yang, M. Z. (2019). CEO Compound Career Experience, Corporate Risk-Taking and Corporate Value. *China Industrial Economics*, No. 9, 155-173.
- Hilary, G., & Hui, K. W. (2008). Does Religion Matter in Corporate Decision Making in America? *Journal of Financial Economics*, 93, 324-362.  
<https://doi.org/10.1016/j.jfineco.2008.10.001>
- John, K., Litov, L., & Yeung, B. (2008). Corporate Governance and Risk-Taking. *Journal of Finance*, 63, 1679-1728. <https://doi.org/10.1111/j.1540-6261.2008.01372.x>
- Li, Q. Y. (2009). Accounting Information Quality, Auditing Supervision and Corporate Investment Efficiency: Empirical Evidence from Listed Companies in China. *Audit Research*, No. 4, 65-73 + 51.
- Li, Z. G., & Shi, X. W. (2016). Strategic Differences, Management Characteristics and Bank Loan Contracts: Based on the Perspective of Risk-Taking. *Journal of Zhongnan University of Economics and Law*, No. 2, 68-77 + 159.
- Liang, S. K. (2015). Managers' Overconfidence, Debt Constraints and Cost Stickiness. *Nankai Management Review*, 18, 122-131.
- Liu, M. X., & Li, L. E. (2019). Strategic Differences, Financial Flexibility and Operating Performance Fluctuations. *Journal of Shanxi University of Finance and Economics*, 41, 80-92.
- Lv, W. D., Liu, W., & He, W. F. (2015). Manager Heterogeneity and Enterprise Risk-Taking. *China Soft Science*, No. 12, 120-133.
- Miles, R. E., Snow, C. C., Meyer, A. D., & Coleman, J. (1978). Organizational Strategy, Structure, and Process. *Academy of Management Review*, 3, 546-562.  
<https://doi.org/10.5465/amr.1978.4305755>
- Rajagopalan, N. (1997). Strategic Orientations, Incentive Plan Adoptions, and Firm Performance: Evidence from Electric Utility Firms. *Strategic Management Journal*, 18, 775-803.  
[https://doi.org/10.1002/\(SICI\)1097-0266\(199711\)18:10<761::AID-SMJ906>3.0.CO;2-2](https://doi.org/10.1002/(SICI)1097-0266(199711)18:10<761::AID-SMJ906>3.0.CO;2-2)
- Sun, J., Wang, B. Q., Cao, F., & Liu, X. Q. (2016). Does Corporate Strategy Affect Earnings Management? *Management World*, No. 3, 160-169.
- Tang, J., Crossan, M., & Rowe, W. G. (2011). Dominant CEO, Deviant Strategy, and Extreme Performance: The Moderating Role of a Powerful Board. *Journal of Management Studies*, 48, 1479-1503. <https://doi.org/10.1111/j.1467-6486.2010.00985.x>
- Wang, B. Q., Hou, C. R., & Sun, J. (2018). Research on the Impact of Corporate Strategy on Corporate Performance. *China Soft Science*, No. 1, 127-137.

- Wang, H. C., Zhang, X. P., Hou, C. R., & Li, X. Y. (2017). Corporate Strategic Differences and the Cost of Equity Capital—Research on the Mediating Effect Based on Operational Risk and Information Asymmetry. *China Soft Science, No. 9*, 99-113.
- Wang, H. C., Zhong, K., Hao, E. Q., & Hou, C. R. (2018). Corporate Strategic Positioning and Corporate Financial Behavior: Theoretical Research Framework and Recommendations. *Financial Research, No. 6*, 3-13.
- Wang, Y. H., & Zhang, T. (2014). Financial Innovation, Audit Quality and Bank Risk Tolerance: Empirical Evidence from My Country's Commercial Banks. *Accounting Research, No. 4*, 81-87 + 96.
- Willenborg, M. (1999). Empirical Analysis of the Economic Demand for Auditing in the Initial Public Offerings Market. *Journal of Accounting Research, 37*, 356-391.  
<https://doi.org/10.2307/2491405>
- Xia, T. S., & Ming, D. (2021). Listed Companies' Strategic Types, Financing Needs and Earnings Management. *Friends of Accounting, No. 1*, 30-37.
- Ye, K. T., Dong, X. Y., & Cui, Y. J. (2015). Corporate Strategic Positioning and the Choice of Accounting Earnings Management Behavior. *Accounting Research, No. 10*, 23-29 + 96.
- Ye, K. T., Zhang, S. S., & Zhang, Y. X. (2014). Corporate Strategy Differences and the Value Relevance of Accounting Information. *Accounting Research, No. 5*, 44-51 + 94.
- Yu, M. G., Li, W. G., & Pan, H. B. (2013a). Managers' Overconfidence and Corporate Risk-Taking. *Financial Research, No. 1*, 149-163.
- Yu, M. G., Li, W. G., & Pan, H. B. (2013b). Privatization, Property Rights Protection and Enterprise Risk-Taking. *Economic Research, 48*, 112-124.
- Zhang, H. L., & Wen, T. (2016). Validity Test and Screening of Alternative Indexes of Audit Quality. *Audit Research, No. 4*, 67-75.
- Zhang, Q. C. (2016). Money Tightening, Financial Flexibility and Corporate Risk-Taking. *Contemporary Finance, No. 11*, 45-56.
- Zhang, S. B., & Zhang, Z. X. (2012). Regional System Differences, CEO Management Autonomy and Corporate Risk-Taking: Evidence from High-Tech Industries in 30 Provinces in China. *Management World, No. 4*, 101-114 + 188.